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KEDI ECONOMIC SURVEY

AUGUST 1981 ISSUE

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KEDI ECONOMIC SURVEY

AUGUST 1981 ISSUE

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1.00 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

As compared with recent forecast's by this Institute, this one differs in two major areas:

1. Slower growth of the economy in the third and fourth quarters of 1981,,
2. slightly reduced growth throughout 1982.

There are only small changes for the 1983-85 years.

In terms of growth rates, unemployment, and inflation, the projection is as follows (percent over the previous year for growth and inflation):

	GNP, const. 72$	Inflation Rate	Unemployment Rate
1981	2.1	9.8	7.5
1982	3.0	9.3	7.4
1983	4.4	9.0	6.8

What is the reason for the change? The answer is found, basically, in the monetary and credit policies of those with the power to influence such matters. It has been assumed here that such policies would be fairly restrictive (see Assumption No. 3). However, now it is assumed that they will be quite restrictive, and will last longer in such tightness than had been predicted in prior issues.

For example, it was assumed in the last forecast that the prime rate would gradually decline to the 17-18 percent range by the end of this year and more significantly in the second half of 1982. Now, KEDI assumes the prime rate will be around 18-19 percent at the end of this year, and 17 percent at the end of 1982. Correspondingly, the monetary growth for 1981 has been reduced from 3.5 to 3.0 percent

for 1981 and from 4.3 to 4.1 percent in 1982.

Still, as the projection shows, growth anticipated this year by this Institute does come to 2.1 percent. It will be unbalanced due mainly to depressed housing and related industries, and automobiles and related industries. There will be a lack of even quarterly growth, but there will not be any deep dip such as the one in March-June, 1980.

Some forecasters, for example Merrill Lynch Economics, Inc., talk about recession in the second and third quarter of this year. By generally accepted understanding among economists, recession takes place if GNP declines for two consecutive quarters. Still, last year, the economy was described as being in a recession for part of the year, BUT ONLY ONE QUARTER, the second one of 1980, has a decline in GNP. KEDI leaves it to the wise men in the National Bureau of Economic Research, as to whether they will describe the middle quarters of this year as a recession or something like a lull or temporary slowing.

The outlook here is not as optimistic as that of the Treasury Secretary, Donald Regan. He indicated that in 1982 there will be recovery lead by stronger auto and housing sales, lower inflation and interest rates. KEDI does not expect too much from 1982--real growth of 3 percent forecast. In 1983, with growth calculated at 4.4 percent, the description of healthy growth is more likely to fit.

Mr. Regan also expressed the view that interest rates would fall to about 9 percent in 1982 as the Administration is projecting. This Institute expects that double digit interest rates will prevail for the next few years; likely through the middle of the decade.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, the changes concern the updates of Assumptions No. 1, No. 2, and No. 7.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will be in the $35 range. In 1982, it is expected the price will go up to $38-39; in 1983, to $41 per barrel; in 1984, to $45 per barrel; and in 1985, $50 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1981-85 period. In 1982, some relaxation, and in 1983, tightening is assumed.

4. The Administration's program of personal income tax cuts, Federal budget cuts, and accelerated depreciation will be adopted. It is assumed that the 5 percent Federal income tax cut will be inacted

effective October 1, 1981; and 10 percent cuts effective July 1, 1982 and July 1, 1983, respectively. Increase in state and local taxation is anticipated. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 should bring record crops.

7. It is projected here that the average rates of growth in 1981-85 in the major industrial countries will be as follows for real GNP:

	1981-1985
West Germany	3.0%
Japan	3.4%
Italy	2.4%
Great Britain	2.4%
France	2.8%

8. No drastic changes in existing international relationships are assumed in this forecast.

The August 1981 KEDI forecast is highlighted in Table 1.0 on the following page.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.7	1512.2	1557.4	1742.1
Index of Industrial Production	1967 =100	147.1	152.7	158.4	186.3
Capacity Utilization	%	78.7	80.3	83.3	86.7
Unemployment Rate	%	7.2	7.5	7.4	6.2
Private Housing Starts	mil. units	1.303	1.184	1.255	1.794
Car Sales	mil. units	9.1	9.8	10.1	11.2
Implicit GNP Price Deflator	1972 =100	177.4	193.0	207.9	251.3
Consumer Price Index	1967 =100	246.7	270.8	295.9	372.4
Producer Price Index	1967 =100	269.8	293.9	318.0	386.5
Federal Deficit	bil. $	-61.2	-48.7	-31.9	-16.4
Personal Income	bil. $	2160.2	2380.0	2623.1	3716.8
Prime Rate	%	15.10	19.30	17.63	12.26
Mortgage Rate	%	12.96	14.93	14.37	11.27
Currency plus Demand Deposits	bil. $	377.1	367.7	389.1	460.5
Commercial and Industrial Loans	bil. $	324.9	346.2	371.1	424.8

1.10 REAL GROWTH
(Table 1.10 on page 8)

Following the 8.6 percent annual rate of growth in the first quarter, the economy showed a drop of an adjusted 1.9 percent in the second quarter. That was the first quarterly drop since the second quarter of 1980.

KEDI agrees with Albert Sommers, the chief economist at the Conference Board. He referred to the economy as one of stagflation, and did not see a threat of recession. There are growing signs of the slowing.

First, the Index of Industrial Production shows that the decline or standstill is spreading from construction and housing to machinery and equipment. The decline would be worse than what was shown in the second quarter if it had not been for the rebound in coal production and the large energy outputs by the utilities due to the long hot spell in most of the country.

Secondly, the nation's factories were operating at an adjusted 79.6 percent of capacity in June, down slightly from the May level of 80.1 percent. That was the first drop since the second month of this year. The decline was widespread and most sharp for producers of iron and steel, paper, and machinery.

Third, both building awards and building outlays dropped in May. Early indications show that the fall will continue in subsequent months.

Building outlays went down by 4.7 percent in May--the fourth consecutive month of declines. As compared to spending in this area in May of 1980, it was 7.1 percent higher, but that May was the pits. Private construction was down by 3.1 percent and public building dropped by 9.9 percent. Building awards were off by 7 percent from the prior month's level.

Fourth, leading economic indicators were off by 1.8 percent in May. The index had increased in April and in March. The May decline put the index at 135.2 percent of the 1967 average. Of the 10 components available, nine of them were down. The only one that did not move downward was the average workweek.

Fifth, car sales fell by 2.7 percent in June. The drop in sales of domestic cars negated the gain in the sales of imported autos. It was the worst June in 23 years on a daily selling-rate base. Sales had gone up in early June, but a mid-month drop came as a surprise to many in the industry.

In July, auto sales continued the slide down. The first 10-days of July showed U.S. car sales down 18 percent.

Sixth, in order to cut inventories, auto makers lowered their production plans for the third quarter. For July, the plans were to build 24 percent more cars than had been built a year ago, but 40,000 fewer than were expected to be sold.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1516.4	1509.1	1507.2	1516.1	1512.2
Index of Industrial Production	1967=100	147.1	151.8	152.6	152.5	153.9	152.7
Unemployment Rate	%	7.2	7.3	7.4	7.6	7.6	7.5
Capacity Utilization Rate	%	78.7	79.9	80.1	80.1	80.9	80.3
Private Housing Starts	mil. units	1.303	1.361	1.171	1.086	1.117	1.184
Car Sales	mil. units	9.1	10.2	9.7	9.6	9.8	9.8

Indicator	Unit	1981	1982				1982
			1*	2	3	4	
Gross National Product, 1972 $	bil. $	1512.2	1530.6	1548.4	1565.3	1585.4	1557.4
Index of Industrial Production	1967=100	152.7	155.4	157.1	159.1	161.8	158.4
Unemployment Rate	%	7.5	7.5	7.5	7.3	7.2	7.4
Capacity Utilization Rate	%	80.3	81.4	82.9	83.9	85.5	83.3
Private Housing Starts	mil. units	1.184	1.090	1.202	1.366	1.364	1.255
Car Sales	mil. units	9.8	9.9	9.7	9.9	10.7	10.1

Indicator	Unit	1982	1983				1983
			1*	2	3	4	
Gross National Product, 1972 $	bil. $	1557.4	1604.2	1621.5	1641.6	1666.5	1633.4
Index of Industrial Production	1967=100	158.4	166.5	169.5	173.4	175.4	171.2
Unemployment Rate	%	7.4	7.0	6.9	6.8	6.5	6.8
Capacity Utilization Rate	%	83.3	86.0	86.5	87.5	88.3	87.1
Private Housing Starts	mil. units	1.255	1.356	1.622	1.805	1.732	1.629
Car Sales	mil. units	10.1	10.2	10.0	10.5	11.0	10.4

* Historical Data

There has been some good news, but not a lot. Still, such areas as strength in retail sales point to conditions not being all negative by any means. (Like the British, many Americans are escaping from assorted woes and financial worries by turning to tradition and some trivia, grandeur and some grappling in the British royal wedding and events surrounding it.)

Back to the business of the common folk whose buying helped end the sales slump that had hit U.S. retailers in the spring. Retail sales rose a seasonally adjusted 1.2 percent in June. There had been declines in the previous two months. Sears, and K-Mart, for instance, had gains aver 17 percent in sales as compared to the year-earlier figure.

1.20 PRICES

(Table 1.20 on page 12)

KEDI's forecast concerning price developments remains essentially unchanged as compared with previous issues. The calculations here of price increases for 1981 is close to that of the Administration in terms of viewing the slower rate of June as being only a temporary slackening. Double digit rates are anticipated in the latter half of the year. Rising prices for beef, housing, and medical and transportation services are seen as major causes for the renewal of higher rates.

Other reasons that this Institute expects high inflation rates follow: It is anticipated here that the decline in prices of raw materials will turn around by the end of the year. Since December of 1980, such prices have dropped sharply. The price of gold has come down from the stratosphere by 36 percent; copper, down 18 percent; wheat has declined by 27 percent; and coffee, 15 percent.

The U.S. economy will begin to recover from the current sluggish pace around the end of the year. That will bring increased demand in industry and consequently, renewed pressure on prices.

KEDI agrees with Chase Econometrics that prices will go up, but it is not calculated here that the move to increased gains will occur as early as they expect. Chase sees third quarter inflation well above a 10 percent annual rate.

The Administration is predicting that there will be an average of a 9.9 percent increase in consumer prices this year as compared to the 13.5 percent hike in 1980. KEDI forecasts the rate at 9.8 percent average this year. So, there is agreement here whereas, a few months ago, their rate was somewhat lower and the rate predicted here was a bit higher.

By the end of the year, the price of oil will begin to go up again. The basic structure of prices, as dictated by OPEC at their meeting in May has not been changed. The "glut" will begin to ease and prices will firm--not that the consumers have seen much benefit from it.

In June, Consumer Prices went up an adjusted 0.7 percent, or a rate of 8.4 percent annually before compounding. The annual rate of inflation in the first quarter was 9.6 percent and the second quarter rate was estimated at 7.4 percent compounded.

For 1982 inflation expected has been revised here to 9.3 percent over the current year. The reasons that next year is seen as having only slightly lower inflation rates fall into three basic areas. First, the economy in this country will expand more rapidly next year than will be true for the current year: 3.0 percent as compared with 2.1 percent anticipated for this year. That will bring stronger demand and upward pressures on prices.

The union contract negotiations will add to ongoing price pressure. Rubber, automobiles, machinery industries are expected to be negotiating for 10 percent wage increases.

Energy prices will still gain--around 10 percent for oil, 7 percent for electricity, 10 percent for coal, and 9 percent for natural gas.

The 1981-1983 expected price increases are shown in the following table:

	1981	1982	1983
Consumer Price Index (1967=100)	9.8	9.1	9.0
Producer Price Index (1967=100)	8.9	8.3	9.7
Implicit GNP Price Deflator (1972=100)	8.8	7.7	7.6

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Consumer Price Index, NSA	1967=100	246.7	262.9	268.8	273.4	278.2	270.8
Producer Price Index, NSA	1967=100	269.8	287.3	291.0	296.5	300.7	293.9
Implicit GNP Price Deflator	1972=100	177.4	188.1	190.4	194.3	198.6	193.0
Gross National Product	bil. $	2626.1	2853.0	2881.0	2928.8	3010.9	2918.4
Personal Consump Expenditures	bil. $	1672.8	1810.1	1830.3	1850.2	1895.0	1846.4
Gross Private Dom. Investment	bil. $	395.3	437.1	453.8	465.1	479.8	459.0

Indicator	Unit	1981	1982				1982
			1*	2	3	4	
Consumer Price Index, NSA	1967=100	270.8	286.5	291.3	298.0	306.5	295.6
Producer Price Index, NSA	1967=100	293.9	307.9	314.3	320.7	338.9	318.0
Implicit GNP Price Deflator	1972=100	193.0	202.3	206.1	209.8	213.5	207.9
Gross National Product	bil. $	2918.4	3096.6	3190.9	3284.4	3384.5	3239.1
Personal Consumpt Expenditures	bil. $	1846.4	1930.0	1981.5	2044.8	2100.4	2014.2
Gross Private Dom. Investment	bil.$	459.0	498.2	514.4	525.9	547.1	521.4

Indicator	Unit	1982	1983				1983
			1*	2	3	4	
Consumer Price Index, NSA	1967=100	295.6	312.9	319.2	326.4	332.0	322.6
Producer Price Index, NSA	1967=100	318.0	336.5	345.2	353.7	359.8	348.8
Implicit GNP Price Deflator	1972=100	207.9	217.1	220.5	226.8	231.5	224.0
Gross National Product	bil. $	3239.1	3482.9	3575.2	3722.8	3857.7	3659.7
Personal Consump Expenditures	bil. $	2104.2	2156.3	2211.4	2328.7	2436.1	2298.7
Gross Private Dom. Investment	bil. $	521.4	568.8	387.6	599.9	610.8	591.8

*Historical Data

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 14)

The forecast here for the unemployment rate has been slightly increased: We are close with the Administration's projection of 7.6 percent. Some forecasters write of this rate as being closer or above 8 percent. That is just too high according to calculations here.

KEDI's projection is that the unemployment rate will gradually improve next year. During 1983, the rate will move below 7 percent.

Forecasts of average workweek and overtime factory payrolls remain essentially unchanged when compared with previous projections.

Quarterly Averages: Workweek and Overtime

	Workweek Hours	Overtime Hours		Workweek Hours	Overtime Hours
1981: 1	35.4	2.9	1982: 1	35.9	3.1
2	35.4	3.0	2	36.0	3.3
3	35.4	3.9	3	36.2	3.3
4	35.8	3.1	4	36.5	3.5

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Population	mil.	2230.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	104.7	105.8	106.2	107.1	107.7	106.7
Employed	mil.	97.1	98.0	98.4	98.9	99.5	98.7
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	94.7	95.1	95.5	96.2	95.4
Unemployment Rate	%	7.19	7.34	7.37	7.63	7.57	7.45

Indicator	Unit	1981	1982				1982
			1*	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	106.7	108.3	109.0	109.9	110.7	108.5
Employed	mil.	98.7	100.2	100.9	101.9	102.7	101.5
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	95.4	96.8	97.5	98.6	99.4	98.1
Unemployment Rate	%	7.45	7.48	7.46	7.30	7.21	7.23

Indicator	Unit	1982	1983				1983
			1*	2	3	4	
Population	mil.	229.6	321.5	232.2	232.9	233.4	232.5
Civilian Labor Force	mil.	109.5	111.9	113.0	113.4	114.2	113.1
Employed	mil.	101.5	104.0	105.2	105.7	106.8	105.5
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	98.1	100.7	101.8	102.4	103.4	102.1
Unemployment Rate	%	7.23	7.02	6.91	6.80	6.52	6.72

* Historical Data

1.40 HOUSING
(Table 1.40 on page 16)

The forecast here for housing has been revised downwards. First, a basic reason for this change lies with the mortgage rates. As compared with the previous forecast, mortgage rates are approximately 0.5 percent higher for the rest of 1981 and for 1982 than had been previously anticipated.

Secondly, the data for June was a bit lower than had been forecast here earlier. Housing starts in June went down to a seasonally adjusted rate of 1.032 million units from the revised rate of 1.159 million for May. Also, permits issued were at a lower rate than had been forecasted earlier.

Forecast for 1982 shows that housing will be in better shape than this year. However, the expected increase will not be dramatic, approximately 5-10 percent above the 1981 level. For 1983 a significant increase of 20-30 percent in housing starts is expected.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Single-Family Housing Starts	mil.	.860	.850	.773	.695	.712	.757
Multifamily Housing Starts	mil.	.473	.511	.398	.391	.405	.426
Mobile Home Shipments	mil.	.222	.248	.276	.280	.249	.263
Housing Permits Issued	mil.	1.117	1.167	1.146	.948	.937	1.050
Construction Costs-Commerc.	1972=100	198.5	208.7	214.5	217.9	225.9	216.8
Construction Costs-Resident.	1972=100	198.6	209.5	215.0	217.2	226.0	216.9

Indicator	Unit	1981	1982				1982
			1*	2	3	4	
Single-Family Housing Starts	mil.	.757	.681	.734	.865	.848	.782
Multifamily Housing Starts	mil.	.462	.409	.468	.501	.516	.473
Mobile Homes Shipments	mil.	.263	.264	.292	.324	.336	.304
Housing Permits Issued	mil.	1.050	1.095	1.303	1.386	1.495	1.320
Construction Costs-Commerc.	1972=100	216.8	231.9	242.0	249.0	254.0	244.2
Construction Costs-Resident.	1972=100	216.9	229.5	239.1	239.1	242.5	251.0

Indicator	Unit	1982	1983				1983
			1*	2	3	4	
Single-Family Housing Starts	mil.	.782	.826	.947	1.103	1.089	.991
Multifamily Housing Starts	mil.	.473	.530	.675	.702	.643	.673
Mobile Homes Shipments	mil.	.304	.351	.364	.389	.356	.365
Housing Permits Issued	mil.	1.320	1.344	1.651	1.718	1.692	1.601
Construction Costs-Commerc.	1972=100	244.2	258.2	266.1	273.1	281.8	269.8
Construction Costs-Resident.	1972=100	240.5	253.4	266.5	272.0	277.6	267.4

* Historical Data

1.50 GOVERNMENT BUDGETS

(Table 1.50 on page 18)

The review of the economy, released in July by the Administration shows that the outlays by the federal government for fiscal 1981 are very close to those projected by KEDI in June (See the last issue, page 18.) The Administration forecast is for $704.8, and KEDI used a figure of $704.9.

There is a larger difference in the forecast of receipts. Last month this Institute predicted that receipts for fiscal year ending September 30, 1982, would be $667.5 billion, as compared with the Administration's figure of $662.4. This month, due to the change in Assumption No. 3, the forecast of receipts had been reduced by $3.4 billion, mainly due to the lower rate of growth and resulting lower income tax and corporate tax receipts.

Although the two forecasts are close, they are based on different assumptions. Whereas the thinkers in the White House assume faster growth in 1982 over this year along with lower inflation and interest rates, KEDI is not so optimistic. There is agreement on the unemployment rate:

1982 FORECASTS

	Administration	KEDI
Real Growth	+3.4%	+3.0%
Consumer Price Index	+7.0%	+9.1%
Unemployment Rate	+7.6%	+7.5%
3 month Treasury Bill Rate	+10.5%	+14.3%

The forecast for State and Local Budgets remains essentially unchanged.

TABLE 1.50 FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1 *	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	283.3	292.0	299.5	301.3	294.0
Corporate Profit Tax Accruals	bil. $	70.1	77.9	81.2	85.0	93.1	84.3
Surplus./Deficit	bil. $	-61.2	-43.4	-50.5	-49.8	-51.3	-48.7
State and Local Governments:							
Income Taxes	bil. $	80.7	88.6	90.4	92.8	93.8	91.4
Corporate Profit Tax Accruals	bil. $	12.2	13.2	15.0	16.1	17.6	15.5
Surplus./Deficit	bil. $	29.1	37.0	38.6	39.0	36.1	37.7

Indicator	Unit	1981	1982				1982
			1 *	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	294.0	308.9	317.6	319.0	329.1	318.7
Corporate Profit Tax Accruals	bil. $	84.3	100.1	107.2	110.9	123.0	110.3
Surplus./Deficit	bil. $	-48.7	-37.2	-29.7	-31.4	-27.2	-31.9
State and Local Governments:							
Income Taxes	bil. $	91.4	96.2	100.1	103.0	105.2	101.3
Corporate Profit Tax Accruals	bil. $	15.5	18.2	19.9	20.5	22.3	20.2
Surplus./Deficit	bil. $	37.7	34.7	35.0	34.0	32.1	34.0

Indicator	Unit	1982	1983				1983
			1*	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	318.7	338.2	350.6	356.9	368.7	353.6
Corporate Profit Tax Accruals	bil. $	110.3	130.2	137.0	141.6	148.3	139.2
Surplus./Deficit	bil. $	-31.9	-29.2	-24.1	-30.6	-22.1	-26.5
State and Local Governments:							
Income Taxes	bil. $	101.3	107.9	112.1	114.1	116.4	112.6
Corporate Profit Tax Accruals	bil. $	20.2	22.9	24.6	25.8	27.8	25.3
Surplus./Deficit	bil. $	34.0	31.5	31.8	33.5	34.9	32.9

* Historical Data

1.60 INCOME

(Table 1.60 on page 20)

Forecasts for personal income, its components, and corporate profits have been slightly reduced due mostly to the rippling restrictive results of the interest rates remaining at higher levels than had been anticipated here. This was covered in the Overview section.

The projection of percapita real disposable income shows that it will remain basically flat this year and next. Improvement is not expected any earlier than 1983. On the bright side, if there are any declines in 1981 or 1982 in these figures, they will be minute. Per capita personal disposable income (in thousands of dollars) as calculated by KEDI are given here:

1980	1981	1982	1983	1984	1985
4.571	4.614	4.621	4.684	4.805	4.912

The projection for corporate profits has been reduced somewhat due to the lowering of the level of profits of financial institutions, the additional reduction in the construction industry, appliances, aerospace, and machinery in 1981 and 1982.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Personal Income	bil. $	2160.2	2319.8	2363.8	2386.0	2450.5	2380.0
Personal Dispos. Income	bil. $	1821.7	1947.8	1985.4	2008.5	2061.2	2001.0
Compensation of Employees	bil. $	1596.5	1722.4	1765.9	1785.9	1817.5	1772.9
Corp. Profits After Tax	bil. $	163.1	168.0	170.0	179.6	187.3	176.4
Personal Saving	bil. $	101.3	88.9	106.0	104.3	112.3	102.9
Average Weekly Earnings	$	297.4	310.7	315.9	320.4	326.2	318.3

Indicator	Unit	1981	1982				1982
			1*	2	3	4	
Personal Income	bil. $	2380.0	2517.9	2579.8	2659.4	2735.4	2623.1
Personal Dispos. Income	bil. $	2001.0	2112.8	2162.0	2236.8	2301.1	2203.2
Compensation of Employees	bil. $	1772.9	1834.0	1880.4	1941.6	1989.9	1911.5
Corp. Profits After Tax	bil. $	176.4	189.5	196.7	201.4	206.8	198.6
Personal Saving	bil. $	102.9	107.5	108.4	117.3	115.6	112.2
Average Weekly Earnings	$	318.3	331.9	336.4	342.1	348.9	339.8

Indicator	Unit	1982	1983				1983
			1*	2	3	4	
Personal Income	bil. $	2623.1	2808.1	2881.9	3017.2	3120.9	2957.0
Personal Dispos. Income	bil. $	2203.2	2362.0	2419.2	2546.2	2635.8	2490.8
Compensation of Employees	bil. $	1911.5	2032.3	2079.3	2189.8	2271.0	2143.1
Corp. Profits After Tax	bil. $	198.6	214.7	216.8	221.2	227.6	220.1
Personal Saving	bil. $	112.2	119.7	118.6	121.3	132.4	120.8
Average Weekly Earnings	$	339.8	355.7	363.8	369.5	377.2	366.6

*Historical Data

1.70 MONEY AND CREDIT

(Table 1.70 on page 22)

The restrictive Federal Reserve monetary policy was again confirmed at the July meeting of its Open Market Committee. At that time, it was disclosed that targets for M1B had been lowered. They are now aiming for a 2.5 to 5.5 percent range for growth in M1B between the last quarter of 1980 and the final quarter of 1981. That is a decline from the 6.75 percent growth in 1980. KEDI, as was mentioned in the Overview forecasts monetary growth at 3 percent in 1981. Repeated here is a statement by KEDI from page 22 of the June, 1981 issue: "The assumption that the Fed's policy will remain tight for this year and next year is maintained. There will not be any more apparent relaxation before 1983."

In line with the Assumption No. 3 here and with the reduction of growth rates anticipated in various parts of the economy, this Institute expects only a slow growth of demand for commercial and industrial loans in the next quarters.

KEDI's forecast of the main categories of consumer credit, as automobile and other consumer durables, remains essentially unchanged when compared with the previous forecast.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Currency + Demand Deposits, M1A	bil. $	377.1	368.3	364.1	367.7	370.7	367.7
Time Deposits, Adjusted, M2	bil. $	1597.4	1698.2	1727.8	1750.9	1771.3	1737.1
Consumer Instal. Credit	bil. $	313.4	310.8	314.9	323.8	331.9	331.9
Commerc. & Industr. Loans at Banks	bil.$	324.9	332.3	335.8	340.1	346.2	246.2
Negotiable Cert. of Deposits	bil. $	129.2	132.4	136.5	141.0	146.0	146.0
Mortgages at S & L Assns.	bil. $	502.8	507.0	507.0	508.1	510.4	510.4

Indicator	Unit	1981	1982				1982
			1*	2	3	4	
Currency + Demand Deposits, M1A	bil. $	367.7	380.0	386.5	391.2	398.7	389.1
Time Deposits, Adjusted, M2	bil. $	1737.1	1794.3	1812.8	1847.3	1883.5	1834.5
Consumer Instal. Credit	bil. $	331.9	338.4	343.6	351.8	358.9	358.9
Commerc. & Industr. Loans at Banks	bil. $	346.2	351.7	355.6	363.2	371.1	371.1
Negotiable Cert. of Deposits	bil. $	146.0	150.1	153.8	160.0	164.3	164.3
Mortgages at S & L Assns.	bil. $	510.4	514.0	520.6	523.7	533.1	533.1

Indicator	Unit	1982	1983				1983
			1*	2	3	4	
Currency + Demand Deposits, M1A	bil. $	389.1	409.2	418.5	423.7	430.6	420.5
Time Deposits, Adjusted, M2	bil. $	1834.5	1910.2	1948.7	1994.3	2046.7	1975.0
Consumer Instal. Credit	bil. $	358.9	365.7	374.1	382.9	387.1	387.1
Commerc. & Industr. Loans at Banks	bil. $	371.1	375.4	388.2	391.3	396.4	396.4
Negotiable Cert. of Deposits	bil. $	164.3	167.5	172.3	175.8	177.6	177.6
Mortgages at S & L Assns.	bil. $	533.1	540.1	545.3	555.9	558.4	558.4

*Historical Data

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 24)

The forecast by KEDI for high interest rates for the rest of the year is maintained, although they are now seen as being higher than what had been calculated in past issues.

The Wall Street Journal of July 7, 1981, published the forecasts of others in this field for the prime rates expected at year-end and including those which were first published at the beginning of January.

	Forecast made in January 1981 for year-end prime rate	Latest Forecast
Alan Greenspan	10-12	17
Manufacturers Hanover	11	15
Merrill Lynch	13-14	15½-16½
Data Resources	15	16½
Bank of America	14	14-16

The figure published by KEDI in the December, 1980, issue for the prime rate at the end of this year was 14.15 percent (see table 1.80, page 37 of that issue). There are no indications that the high interest rates will decline significantly in the foreseeable future. At the present time this Institute sees the year-end prime rate as more likely to be about 18-19 percent at the end of the year (see table 1.80), due to the continued tight grip on money and credit the Federal Reserve is exerting.

There is a clear trend of interest rates very gradually edging downward--at a confused snail's pace. KEDI expects the lowest point for the prime

TABLE 1.80 INTEREST RATES, YIELDS
AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	14.37	15.74	15.56	15.19	15.22
Prime Rate	%	15.10	19.21	18.95	19.81	19.24	19.30
Mortgage Rate, New Homes	%	12.96	14.46	14.81	15.32	15.11	14.93
Aaa Bonds Rate	%	11.96	13.52	14.72	15.24	14.89	14.59
Long Term Govt. Bonds Yield	%	11.39	12.74	13.43	13.96	13.82	13.49
Standard & Poor's 500 Average	1941-43 =10	118.71	133.79	132.65	130.80	132.24	132.37

Indicator	Unit	1981	1982				1982
			1*	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	15.22	14.48	14.54	14.02	13.73	14.32
Prime Rate	%	19.30	18.56	17.83	17.19	16.95	17.63
Mortgage Rate, New Homes	%	14.93	14.91	14.67	14.03	13.87	14.37
Aaa Bonds Rate	%	14.59	14.57	14.09	13.52	13.14	13.83
Long Term Govt. Bonds Yield	%	13.49	13.75	13.58	13.25	13.11	13.42
Standard & Poor's 500 Average	1941-43 =10	132.37	133.08	134.69	136.02	137.14	135.23

Indicator	Unit	1982	1983				1983
			1*	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	14.32	13.22	12.97	12.87	13.14	13.05
Prime Rate	%	17.63	16.54	16.41	16.23	16.58	16.44
Mortgage Rate, New Homes	%	14.37	13.64	13.56	13.62	13.75	13.64
Aaa Bonds Rate	%	13.83	12.67	12.02	11.97	12.34	12.25
Long Term Govt. Bonds Yield	%	13.42	12.73	12.21	11.84	11.90	12.17
Standard & Poor's 500 Average	1941-43 =10	135.23	137.56	136.42	143.41	138.11	136.59

* Historical Data

rate in 1982 will be about 15-16 percent. That will likely be reached around mid-year and then will move up again. The upward move will continue in 1983, and there will be some more decline in 1984.

Forecasts of the stock market remain essentially unchanged.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Index of Industrial Production for the second quarter of 1981 has been selected for comparison. Actual figures are in the FEDERAL RESERVE, Industrial Production, G. 12.3, July 15, 1981 issue Table 1A (Board of Governors of the Federal Reserve System, Washington, D.C.). Forecast data are from the Business Forecasts 1981, Federal Reserve Bank of Richmond, Richmond, Virginia, 1981. The following table shows the predictions of forecasters and the deviations of forecast data. As shown, Chemical Bank, and KEDI were closest to the mark.

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Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

INDEX OF INDUSTRIAL PRODUCTION

(Second quarter 1981, 1967=100, S.A.A.R.)

Actual: 152.6

	Page of Business Forecasts 1981:	Forecast	% of Accuracy:
American Statistical Association and National Bureau of Economic Research	21	147.0	-3.7
Ameri Trust	22	143.4	-6.0
The First National Bank of Chicago	24	146.6	-4.0
Manufacturers Manover Trust Co.	25	145.1	-5.0
Chemical Bank	26	150.4	-1.4
UCLA	27	146.8	-3.8
WGN Continental Broadcasting Co.	29	144.0	-5.6
Cyrus J. Lawrence	29	147.1	-3.6
Bankers Trust Company	30	147.7	-3.8
Standard & Poor's Co.	31	145.5	-4.7
Data Resources, Inc.	32	144.3	-5.4
KEDI	33	150.4	-1.4
Fidelity Bank	34	147.7	-3.2
Morgan Guaranty	35	147.6	-3.3